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UNCLAS SECTION 01 OF 06 PARIS 008586

SIPDIS

SENSITIVE

STATE FOR EB/IFD/OMA
TREASURY FOR DO/IDD AND OUSED/IMF
SECDEF FOR USDP/DSAA
PASS EXIM FOR CLAIMS -- EDELARIVA
PASS USDA FOR CCC -- ALEUNG/DERICKSON/KCHADWICK
PASS USAID FOR CLAIMS
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SUBJECT: PARIS CLUB - DECEMBER 2005 TOUR D'HORIZON

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SUMMARY

1. (SBU) At the December 13 Paris Club meeting, creditors agreed to implement a second 30 percent tranche of debt reduction for Iraq, provided a Stand-By Arrangement is approved by the IMF Executive Board before year-end. The first batch of bilateral agreements implementing the Paris Club debt deal with Nigeria, including an agreement with the U.S., was signed on December 17 at a ceremony in Abuja. Grenada has reached agreement in principle with the IMF on a Poverty Reduction and Growth Facility (PRGF) that could pave the way for a Paris Club rescheduling in 2006. Key creditors withdrew opposition to an increase in the debt swap ceiling for Jordan; the issue will be discussed again in January. Other countries on the agenda included Angola, Argentina, the Democratic Republic of the Congo, the Dominican Republic, Kenya, Macedonia, North Korea, Sao Tome and Principe, Serbia Montenegro, and Sierra Leone. END SUMMARY.

ANGOLA

2. (SBU) The Secretariat presented the results of a recent data call, which revealed significant disparities in Angola's behavior toward to its Paris Club creditors. Angola owes 3.9 billion dollars to the Paris Club, of which 3.5 billion is in arrears (including late interest). The majority of Paris Club creditors have received little or no debt service over the last decade; in some cases (Denmark, Canada, Finland, France, Sweden, Switzerland, Netherlands, UK, Japan), arrears represent the totality of the outstanding debt stock. Germany, on the other hand, reported no arrears (out of 223 million dollars in exposure), while the US reported just 7 million dollars in arrears (out of 49 million). (Note: on December 16, US Ex-Im Bank reported it had received payment of the arrears from Angola.) Spain (the largest creditor) asked the Secretariat to draft a letter urging the authorities to respect Paris Club solidarity. The USDEL said it could support a letter calling on Angola to pay all its Paris Club creditors in full. In addition to a letter, the Secretariat agreed to prepare a working paper exploring creative ways of dealing with Angola if and when it comes to the Club.

ARGENTINA

3. (SBU) Creditors decided to hold off on follow-up action to the letter that was sent last month (expressing concern about the accumulation of arrears) until Argentina's new economic team has signaled its intentions to the IMF.

DEMOCRATIC REPUBLIC OF THE CONGO

4. (SBU) The Secretariat will initiate a data call to determine the size of a moratorium interest payment falling due on March 31, 2006. Creditors will decide whether to defer the payment based on the DRC's capacity to pay. In response to a question from the Secretariat, the USDEL explained that it is now in a position to join other creditors in providing HIPC interim relief to the DRC and that it will forgive 100% of flows falling due, including the interest payment falling due in March. (Note: USG will be able to provide interim relief until the end of FY07.)

DOMINICAN REPUBLIC

5. (SBU) The IMF said no major financing gaps are expected in 2006 thanks to higher-than-expected financing from Venezuela and the World Bank and lower-than-programmed

payment of arrears to electricity generators. Therefore, there is no need for financing assurances from the Paris Club. In October, the DR had asked the Paris Club to reschedule 2005 and 2006 maturities. At that time, the USDEL, while supporting the 2005 rescheduling, was unconvinced by the IMF's financing gap projections and had successfully opposed the 2006 request.

GRENADA

¶6. (SBU) The IMF said agreement in principle has been reached with Grenada on a PRGF that could come to the Executive Board in March. Although Paris Club claims are relatively small, the Fund is planning to ask creditors for financing assurances next month. Grenada completed a restructuring of its commercial debt in November

IRAQ

¶7. (SBU) The second tranche of cancellation (30%) is set to take effect, assuming an SBA is approved by the IMF Executive Board later this month. Although the IMF noted that two prior actions still needed to be completed (adjustment of domestic fuel prices and an audit of the central bank), it gave no indication that the program might be delayed. The Secretariat has drafted a letter to the authorities notifying them that the conditions for the second tranche of cancellation have been met. The plan is to send the letter on December 23 or 24, immediately following board approval of the SBA. Several creditors (France, Germany, UK, Netherlands, Denmark, Spain, Switzerland, Austria) hope to finalize their bilateral agreements by the end of the year. The deadline for concluding bilateral agreements is likely to be extended another two months to accommodate laggards, to February 28, ¶2006.

JORDAN

¶8. (SBU) Reaction to Jordan's request for an increase in the debt swap ceiling was more positive than anticipated, although a consensus is still lacking. As expected, the US, the UK, France, and Italy voiced support for the request, citing Jordan's role as a key ally and a desire to be helpful in the face of difficult external challenges. Canada and Japan - which had previously opposed Jordan's request in the G-7 - said they would not block consensus, although they remain unenthusiastic. Several other countries (Germany, Netherlands, Switzerland, Norway) expressed reservations and asked for more information before making any decisions. The Netherlands warned that increasing the ceiling would set a dangerous precedent and said that it had already been approached by Indonesia with a similar request to do more swaps. Norway, which in the past has lobbied creditors to lift the ceiling on debt-for-development swaps, said it was skeptical about uncapping debt-for-equity swaps. The Secretariat agreed to produce a working paper for discussion at the next meeting. Separately, creditors are prepared to extend the consolidation period of Jordan's current arrangement once they receive a comfort letter from the IMF (expected soon) regarding Jordan's performance under Post-Program Monitoring.

KENYA

¶9. (SBU) The second review of the PRGF has been delayed until January in the wake of President Kibaki's decision to reshuffle his cabinet. Creditors are prepared to enter into force the third phase of the current Paris Club agreement once the second review is approved.

MACEDONIA

¶10. (SBU) Macedonia has withdrawn its prepayment offer after it was unable to resolve a dispute with Italy over a loan to the former Yugoslavia. The Secretariat reported that Macedonia recently issued a 150 million 10-year eurobond with a coupon rate of 4.625%.

NIGERIA

¶11. (SBU) The Secretariat confirmed that Nigeria has made its second payment into escrow at the BIS, pursuant to the terms of the October Agreed Minute. The first batch of bilateral agreements, including an agreement with the U.S., was signed in Abuja on December 17.

NORTH KOREA

¶12. (SBU) Russia reported \$7.4 billion in claims, all in arrears, and asked if other creditors had exposure to North Korea. Eleven other creditors (France, Netherlands, Germany, Italy, Japan, UK, Austria, Sweden, Switzerland, Belgium, Finland) reported claims ranging from \$10 million (UK) to \$365 million (Japan) - most of which are in arrears. The US has no claims.

SAO TOME AND PRINCIPE

¶13. (SBU) STP has mishandled implementation of a previous agreement to make a one-time payment of \$1.5 million to its Paris Club creditors. STP overpaid Russia, but underpaid Spain, Germany, and France. The Secretariat will work with all parties involved to rectify the error. The US is not a creditor.

SERBIA MONTENEGRO

¶14. (SBU) The final review of the IMF program is scheduled to come to the Executive Board in February. Creditors rejected Serbia's request for an extension of the interest capitalization period (to match the technical extension of the IMF program) on the grounds that Serbia should not be rewarded for dithering on reforms.

SIERRA LEONE

¶15. (SBU) The IMF reported that a new PRGF could be in place by next February, subject to the completion of prior actions and financing assurances from the Paris Club. Once the program is approved, creditors will resume interim HIPC relief retroactive to June 2005, when the previous PRGF expired.

Debt Swap Report and Handbook

¶16. (SBU) The Secretariat asked creditors to update their submissions to the recent debt swap data call, and distributed a preliminary glossary of terms for creditors' comment. In response to the USDEL suggestion that the handbook be expanded beyond a simple glossary to something resembling a user's manual, the Secretariat said it would start with a glossary and then consider possible next steps.

Fiftieth Anniversary Celebration

¶17. (U) An event celebrating the 50th anniversary of the Paris Club is tentatively scheduled for Wednesday, June 14, coinciding with the Paris Club's annual meeting with the private sector. The Brookings Institution and CEPII (a French think tank) will organize a policy forum consisting of three roundtable discussions: the Paris Club in the international financial system; the Paris Club and development; and the Paris Club and the private sector. The roundtable discussions will be chaired by former Paris Club chairpersons and will feature speakers from creditor and debtor countries, as well as from academia. Brookings will publish a collection of papers, to be submitted by various contributors.

STAPLETON#